



BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application	)	
	)	
of	)	
	)	Docket No. 2009-0049
WAI'OLA O MOLOKA'I, INC.	)	
	)	
For review and approval of rate	)	
increases; revised rate schedules; and	)	
revised rules.	)	
_____	)	

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

COMES NOW, WAI'OLA O MOLOKA'I, INC., by and through its attorneys, Morihara Lau & Fong LLP, hereby submits its Responses to the Division of Consumer Advocacy's Submission of Rebuttal Information Requests consistent with the Stipulated Regulatory Schedule (Exhibit "A") contained in the Order Approving Proposed Procedural Order, as Modified, filed on November 6, 2009.

DATED: Honolulu, Hawaii, February 26, 2010.

  
\_\_\_\_\_  
MICHAEL H. LAU, ESQ.  
WYONNE Y. IZU, ESQ.

Morihara Lau & Fong LLP  
Attorneys for WAI'OLA O MOLOKA'I, INC.

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
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**DOCKET NO. 2009-0049**

CA-RIR-1

**Ref: WOM-RT-100, page 2.**

The Company is asserting that the appropriate benchmark is to use the currently effective rates, which include the temporary increase granted as a result of Docket No. 2008-0115.

a. On page 9 of the Commission's Order Denying Wai'ola O Moloka'i, Inc.'s Request To Submit Unaudited Financial Statements In Lieu Of Audited Financial Statements, filed on April 2, 2009, the Commission states that, "[t]he rates approved in the Temporary Rate Order are not WOM's permanent rates and were only to be in effect for a short period of time. Thus, WOM's articulation of proposed rate increases from its temporary User Charge is misleading and improper. Accordingly, WOM's amended application, to be filed in this proceeding, shall reflect any proposed rate increases from its permanent rates approved in Decision and Order No. 12125." Please discuss whether the Company's assertion in rebuttal testimony is consistent with the Commission's Order.

**RESPONSE:**

The Company believes that its use of the temporary rates for the sole purpose of determining if there will be rate shock to

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CA-RIR-1 (cont.)

the customers when rates from this proceeding are implemented is proper and not inconsistent with the Commission's Order. The Company has complied with the Commission's requirement to show the permanent rates and has measured the impact of its requested increase using both the permanent rates and the temporary rates. The term "rate shock" has generally been utilized to describe the impact customers face when utility rates are increased above a certain level from what they are currently paying. The Company believes that the issue of rate shock should be determined using the rates customers are currently paying and have been paying for over a year.

- b. Assuming that the Company contends that the Commission's Order is relevant only to the amended application and not the determination of whether a phase-in is appropriate, please provide authoritative citation to any relevant Commission Decision and Order that would support such an assertion.

**RESPONSE:**

That is not the Company's contention. See the response to part "a" above.

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CA-RIR-1 (cont.)

- c. Please identify the lowest percentage increase, regardless of the starting point (Docket Nos. 7122 or 2008-0115), on which the Company contends that a phase-in is appropriate. Please provide a copy of any analysis that would illustrate how a phase-in plan, at any lower level would adversely affect the Company.

**RESPONSE:**

The Company does not have a position on when a phase-in is appropriate. The Company believes that each case should be reviewed on its own merits.

- d. The Company contends that a phase-in plan over twelve months "should be rejected because of the significant losses reflected for the test year, even under the Consumer Advocate's proposed expense levels."
1. Assuming that the Company's rebuttal position is adopted by the Commission, please provide a copy of the analysis conducted by the Company that illustrates the significant losses that would be experienced and how a phase-in plan over 12 months would adversely affect the Company.

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CA-RIR-1 (cont.)

**RESPONSE:**

Since the Company would continue to support the 53.9% increase over temporary revenue levels shown on Exhibit WOM 11.3, column 11, line 20, the resulting revenues for the phase 1 increase would be \$371,683 as shown on Attachment CA-RIR-1d.1, line 1, column 4. As shown on line 8 in column 4, the Company would still have an operating loss of \$189,953. Extending that undercollection beyond the Company's six-month proposed phase-in period would have a serious adverse impact on the Company.

2. Assuming that the Consumer Advocate's recommended revenue requirement is adopted by the Commission, please provide a copy of the analysis conducted by the Company to support its assertion that a phase-in plan over 12 months would adversely affect the Company.

**RESPONSE:**

See Attachment CA-RIR-1d.1, line 16, column 4. This shows that, under the Consumer Advocate's proposed phase-in, phase 1 would result in an

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CA-RIR-1 (cont.)

operating loss of \$121,005 which would also adversely affect the Company if the phase-in were to be extended beyond the six-month period proposed by WOM.

3. If not already addressed, under both the Company's rebuttal position and the Consumer Advocate's recommended position, the Company is either *earning income (i.e., making profits) or breaking even*, please explain how significant losses would be incurred under a phase-in plan.

**RESPONSE:**

As shown on Attachment CA-RIR-1d.1, lines 8 and 16, the Company is not either making a profit or breaking even under the present rates (column 1), the temporary rates (column 2) or the phase-in rates (column 4). The Company only makes a profit under the Company's final proposed rates (column 5, line 8) and only breaks even under the Consumer Advocate's final proposed rates (column 5, line 16). Therefore, under either phase in plan, the Company will still incur operating losses until the final rates are

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CA-RIR-1 (cont.)

effective. Delaying those final rates for a full 12 months as proposed by the Consumer Advocate would continue the significant losses shown on lines 8 and 16 of Attachment CA-RIR-1d.1.

**SPONSOR:** Robert O'Brien



# **ATTACHMENT CA-RIR-1d.1**

Waiola O Molokai  
Operating Income (Loss) at Various Rate Levels  
Test Year Ending June 30, 2010

		[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
Line #	Description	Present Rates	Temporary Rates	1st Phase Increase	At 1st Phase Revenue	At Final Revenue
<b><u>WAIOLA O MOLOKAI</u></b>						
1	Tariff Revenue	\$ 106,957	\$ 242,224	1.5390	\$ 371,683	\$ 592,455
2	Other Revenue	1,100	1,100		1,100	1,100
3	Total Revenue	108,057	243,324		372,783	593,555
4	O & M Expenses	393,994	393,994		393,994	393,994
5	Taxes - OTI	6,899	15,535		23,801	37,916
6	Depreciation	133,286	133,286		133,286	133,286
7	Total Operating Expense	534,179	542,815		551,081	565,196
8	Net Income (Loss) BIT	\$ (426,122)	\$ (299,491)		\$ (178,298)	\$ 28,359
<b><u>CONSUMER ADVOCATE</u></b>						
9	Tariff Revenue	\$ 106,957	\$ 242,224	1.339	\$ 324,272	\$ 453,529
10	Other Revenue	1,100	1,100		1,100	1,100
11	Total Revenue	108,057	243,324		325,372	454,629
12	O & M Expenses	318,113	318,113		318,113	318,113
13	Taxes - OTI	6,899	15,535		20,774	29,028
14	Depreciation	107,490	107,490		107,490	107,490
15	Total Operating Expense	432,502	441,138		446,377	454,631
16	Net Income (Loss) BIT	\$ (324,445)	\$ (197,814)		\$ (121,005)	\$ (2)

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CA-RIR-2

**Ref: WOM-RT-100, pages 6 - 8.**

- a. Please discuss whether the Company has any studies, reports or analyses that would support the contention that its current compensation and benefits package is inadequate in comparison to other Hawaii small utility companies. If so, please provide a copy of the applicable study, report, or analysis.

**RESPONSE:**

The Company, on pages 6 to 8 of the Mr. O'Brien's rebuttal testimony (WOM-RT-100), does not contend that its current compensation and benefits package is inadequate in comparison to other Hawaii small utility companies. The Company has responded to the Consumer Advocate's recommendation to reduce the cost for the benefits provided to its employees by 50 percent because of the economy and the possible impact on some customers. The Company has supported the current level of the compensation package and pointed out that these benefits have been in place for a significant time and that the employees have not had a base pay increase, other than for increased responsibility or certifications. While Mr. O'Brien is aware of some

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CA-RIR-2 (cont.)

compensation levels for other small utilities in Hawaii, he has not prepared any study regarding the comparative levels of compensation and related responsibilities and job requirements.

- b. Other than any regulated subsidiaries, please identify any other Hawaii utility company that provides almost complete coverage of all medical and dental plan expenses.

**RESPONSE:**

The Company will try to contact several of the other Hawaii utility companies to determine what percent of the medical and dental benefits are provided by those companies and will provide that data as soon as Mr. O'Brien receives authorization to release the information.

- c. Without any showing by the Company to justify that its level of compensation, both pay and benefits, are inadequate, please explain why the Commission should allow the current level of the existing benefits coverage to continue beyond the instant rate proceeding.

**RESPONSE:**

First, as stated in the response to part "a" above, the Company does not contend that the current pay and benefits are inadequate. Second, to the best of the Company's

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CA-RIR-2 (cont.)

knowledge, the compensation policies currently in effect were also in effect when Molokai Public Utilities, Inc., an affiliated company that shares the employees with WOM, had its last rate case and there were no objections to those procedures at that time. While the pay rates, benefit costs and time charged to WOM have changed, there has been no indication that a change in the nature of the compensation package would be required. The Company believes it has acted in good faith with its employees and, if the Commission believes a change should be made, the Company and the employees should be allowed the opportunity to make such changes without the severe penalty proposed by the Consumer Advocate.

**SPONSOR:** Robert O'Brien

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**DOCKET NO. 2009-0049**

CA-RIR-3

**Ref: WOM-RT-100, page 7.**

The Company asserts that current economic conditions are somewhat improved from 2008 and 2009. Please provide a copy of all documentation or analyses relied upon to support this position.

**RESPONSE:**

The Company has not accumulated any specific documentation that current economic conditions have improved since 2008 and 2009. The Company is aware of generally available information in the news media and publications that unemployment rates have begun a decline, an economic recovery has begun, durable goods production has increased and other economic measurements have begun to turnaround in recent months.

**SPONSOR:**

Robert O'Brien

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CA-RIR-4

**Ref: WOM-RT-100, pages 8 – 9.**

In response to a question whether the Company agrees with the Consumer Advocate, the response is that "[n]ormally, I would not."

- a. Please confirm that the Company is agreeing with neither the methodology nor the resulting value. If this understanding is incorrect, please provide the necessary clarification(s).

**RESPONSE:**

*It is confirmed that the Company is not agreeing with the rate proposed by the Consumer Advocate or the methodology used to establish that rate.*

- b. The Company indicates that there is an increase of approximately 63 percent when comparing a low of \$0.3769 in June 2009 and a high of \$0.6161 in August 2008. Please confirm that this is actually a decrease and represents a decrease of 38.8 percent from the August 2008 recorded value.

**RESPONSE:**

The Company will confirm that the change can be viewed as a decrease. The Company would also note that, if it were viewed as a decrease, the 38.8% would still be a significant change.

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CA-RIR-4 (cont.)

**SPONSOR:** Robert O'Brien



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CA-RIR-5

**Ref: WOM-RT-100, page 12.**

- a. The Company is suggesting the use of an average value based on two month's activity, or, in the alternative, the use of three years of values. Please discuss why an average of two months' value is better than using a single month's value.

**RESPONSE:**

First, it should be made clear that the Company's recommendation to use a two-month average is if the Commission approves an APCAC as requested by the Company, but recommended against by the Consumer Advocate. Under the condition that the Commission approves the use of an APCAC as proposed by the Company, either a one-month amount or two-month average could be used and that the month should be the most recent month that data is available to minimize the APCAC changes that would be calculated after the new rates become effective. If an APCAC is not approved, the Company believes a three-year average is the correct procedure to determine the electric expense for this proceeding.

- b. Please explain whether the Company has done any analysis

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CA-RIR-5 (cont.)

to determine whether the three years average of 2007 through 2009 is representative or reasonably reflects expectations of future prices. In your discussion, please address the support, if any, that 2008 prices, which reflect a significant spike in prices, can be reasonably expected again in the near future.

**RESPONSE:**

Based on its analysis of the data provided to the Consumer Advocate for the three historic years, the Company believes such data provides sufficient evidence to support the reasonableness of the three-year average. The Company does not know whether the future will result in higher or lower rates than the average rate provided by the use of the three historic years.

- c. Please provide the Company's definition of "long-term" and if, for purposes of discussion for this or any expense item, the Company is asserting that long-term approximates three years, please state so.

**RESPONSE:**

The Company believes that a three-year average is a long-term average for the determination of an electric rate in the rate case. This would be equal to the period expected

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CA-RIR-5 (cont.)

between rate cases as proposed in the rate case amortization by both the Company and the Consumer Advocate and therefore should be reasonable.

- d. Please provide monthly data for 2006 and 2005 for all meters. In addition, please provide the 2009 and 2010 data for any months not already in the record.

**RESPONSE:**

Please see Attachment CA-RIR-5d for the requested data for 2005 and 2006, and January 2010. The information for November and December 2009 is contained in Exhibit WOM-R-4.

- e. The Company calculated the three year average using values from July 2006 through June 2009. However, the Company uses the value for November and December 2009 to determine a two month average. Please explain the reasonableness of using the periods identified above in the Company's proposed alternatives as compared to using different sets of data, say, January 2007 through December 2009 for a three year average (assuming that all questions about whether 2008 was aberrational).

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CA-RIR-5 (cont.)

**RESPONSE:** With regard to the multi-year average process which should be used when an APCAC is not part of the Company's rates, the Company has no objection to using the most recent three-year period of data. When an APCAC is included as part of the Company's rates, the historic average (any period) could be used but, the Company believes a more *current rate will better match future changes in electric rates.*

**SPONSOR:** Robert O'Brien

**ATTACHMENT**  
**CA-RIR-5d**



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ACCOUNT NUMBER

9200-9628-002

MOLOKAI RANCH LTD

SERVICE ADDRESS

KUALAPUU-PUMP

AMOUNTS

BALANCE FROM PREVIOUS BILLING \$451.87  
12/12/05 PAYMENT - THANK YOU 451.87-  
BALANCE PRIOR TO BILLING \$0.00  
CURRENT ELECTRIC SERVICE DUE 01/18/06 250.94  
TOTAL AMOUNT DUE \$250.94

JAN 4 2006

MOLOKAI RANCH, LTD.  
HONOLULU ACCOUNTING

Approval

Date

Description

Dep't/Acct #

CR Job #

Cost Code #

BILL PERIOD

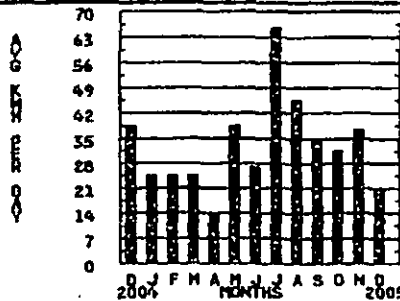
GND GENERAL SERVICE NON-DMD  
FROM 11/25/05 TO 12/23/05 28 DAYS

MTR# MX000002099 KILOWATT HOURS  
CURRENT READING 03214  
PREVIOUS READING 02649  
DIFFERENCE 565  
MULTIPLIER 1  
USAGE 565

BILL DETAIL

CUSTOMER CHARGE \$33.00  
ENERGY CHARGE 134.43  
ENERGY COST ADJUSTMENT 82.87  
IRP COST RECOVERY 0.64  
TOTAL FOR SERVICE \$250.94

USAGE PROFILE



ELECTRIC USAGE PROFILE FOR METER MX000002099

DATE	KWH	AMOUNT	DAYS	KWH/DAY	\$/DAY
12/23/05	565	\$250.94	28	20.2	8.96
11/25/05	1122	\$51.07	31	36.2	16.52
10/25/05	1014	\$45.47	30	33.8	15.25
09/25/05	1330	\$60.40	30	44.3	20.31
08/25/05	1022	\$46.45	30	34.1	15.82
07/25/05	785	\$35.46	29	27.1	12.57
06/25/05	1083	\$49.40	30	36.1	16.82
05/25/05	1102	\$50.00	30	36.7	17.22
04/25/05	1102	\$50.00	30	36.7	17.22
03/25/05	1102	\$50.00	30	36.7	17.22
02/25/05	1102	\$50.00	30	36.7	17.22
01/25/05	1102	\$50.00	30	36.7	17.22

WHEN PAYING IN PERSON, PLEASE PRESENT BOTH PORTIONS

099007427 123005 06775 MI



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## ACCOUNT NUMBER

9500-4766-003

## SERVICE ADDRESS

KUALAPUU RESERVOIR X

AMOUNTS	12/12/05	BALANCE FROM PREVIOUS BILLING	\$27.03
		PAYMENT - THANK YOU	<u>27.03-</u>
		BALANCE PRIOR TO BILLING	\$0.00
		CURRENT ELECTRIC SERVICE DUE 01/15/06	<u>41.69</u>
		TOTAL AMOUNT DUE	\$41.69

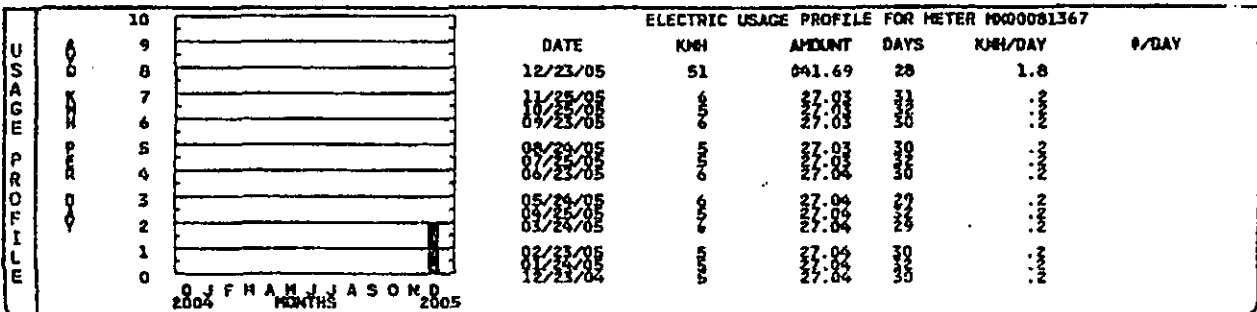
**MOLOKAI RANCH LTD**

**JAN 2 2006**

APPROVAL \_\_\_\_\_  
DATE \_\_\_\_\_  
DESCRIPTION \_\_\_\_\_  
DEPT/ACCT # \_\_\_\_\_  
OR JOB # \_\_\_\_\_  
COST CODE # \_\_\_\_\_

BILL PERIOD	GND GENERAL SERVICE NON-DMD FROM 11/25/05 TO 12/23/05 28 DAYS		BILL DETAIL	CUSTOMER CHARGE	\$22.00
	MTR# MX000081367 KILOWATT HOURS			ENERGY CHARGE	12.13
	CURRENT READING	00139		ENERGY COST ADJUSTMENT	7.48
	PREVIOUS READING	00088		IRP COST RECOVERY	<u>0.08</u>
	DIFFERENCE	51		TOTAL FOR SERVICE	\$41.69
	MULTIPLIER	1			
	USAGE	51			

**01/07/06**



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122705 06775 M5



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## ACCOUNT NUMBER

## SERVICE ADDRESS

9200-7389-002

MOLOKAI RANCH LTD

KALAE BOOSTER PUMP

AMOUNTS

12/12/05

BALANCE FROM PREVIOUS BILLING

\$189.82

PAYMENT - THANK YOU

~~189.82~~

BALANCE PRIOR TO BILLING

\$0.00

CURRENT ELECTRIC SERVICE DUE 01/15/06

114.03

TOTAL AMOUNT DUE

\$114.03

JAN 2 2006

Approval

Date

Description

Dep/VAcct

OR Job

Cost Code

BILL PERIOD

GND GENERAL SERVICE NON-DMD  
FROM 11/25/05 TO 12/23/05 28 DAYS

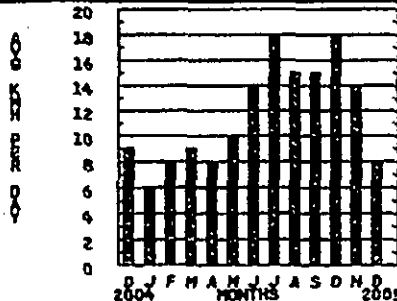
MTR# MX000003553 KILOWATT HOURS  
CURRENT READING 2872  
PREVIOUS READING 2851  
DIFFERENCE 21  
MULTIPLIER 10  
USAGE 210

BILL DETAIL

CUSTOMER CHARGE \$33.00  
ENERGY CHARGE 49.97  
ENERGY COST ADJUSTMENT 30.80  
IRP COST RECOVERY 0.26  
TOTAL FOR SERVICE \$114.03

PAID  
01/24/06

USAGE PROFILE



## ELECTRIC USAGE PROFILE FOR METER MX000003553

DATE	KWH	AMOUNT	DAYS	KWH/DAY	\$/DAY
12/23/05	210	\$114.03	28	7.5	
11/25/05	920	182.82	31	29.6	6.26
09/23/05	440	185.98	30	14.7	6.20
08/23/05	960	120.87	30	32.0	6.36
06/23/05	970	123.32	30	32.3	7.12
04/23/05	430	182.37	30	14.3	6.08
02/23/05	300	113.04	29	10.3	4.52
01/23/05	260	114.86	29	9.0	3.93
01/23/05	250	113.21	30	8.3	3.90
12/23/04	280	122.41	30	9.3	4.18

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ACCOUNT NUMBER

SERVICE ADDRESS

9200-9628-002

MOLOKAI RANCH LTD

KUALAPUU-PUMP

A  
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12/08/06 BALANCE FROM PREVIOUS BILLING \$333.01  
 PAYMENT - THANK YOU 333.01-  
 BALANCE PRIOR TO BILLING \$0.00  
 CURRENT ELECTRIC SERVICE DUE 01/14/07 289.45  
 TOTAL AMOUNT DUE \$289.45 ✓

Approval

Date

Description

Acct/Acct

Job

Code

# WAHOLA-900-20

POSTED

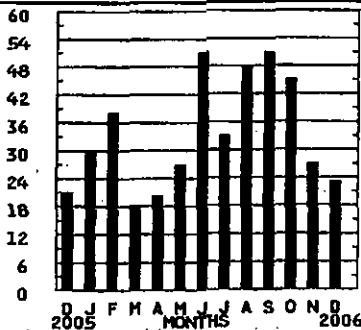
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GND GENERAL SERVICE NON-DMD  
 FROM 11/22/06 TO 12/22/06 30 DAYS

MTR# MX000002099 KILOWATT HOURS  
 CURRENT READING 15435  
 PREVIOUS READING 14763  
 DIFFERENCE 672  
 MULTIPLIER 1  
 USAGE 672

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CUSTOMER CHARGE \$33.00  
 ENERGY CHARGE 159.89  
 ENERGY COST ADJUSTMENT 94.60  
 IRP COST RECOVERY 1.96  
 TOTAL FOR SERVICE \$289.45

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ELECTRIC USAGE PROFILE FOR METER MX000002099

DATE	KWH	AMOUNT	DAYS	KWH/DAY	\$/DAY
12/22/06	672	\$289.45	30	22.4	9.65
11/22/06	765	333.01	29	26.4	11.48
10/22/06	1433	602.55	32	44.8	18.83
09/22/06	1491	633.88	29	51.4	21.86
08/24/06	1400	578.13	30	46.7	19.96
07/26/06	1037	449.54	32	32.4	13.92
06/23/06	1504	605.64	30	50.1	20.19
05/24/06	778	319.31	29	26.8	11.01
04/25/06	598	249.68	32	18.7	7.60
03/24/06	490	208.25	29	16.9	7.18
02/23/06	1097	426.73	30	36.6	14.22
01/24/06	957	391.26	32	29.9	12.54
12/23/05	565	250.92	28	20.2	8.52

WHEN PAYING IN PERSON, PLEASE PRESENT BOTH PORTIONS

122606 06775 M5

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**Consider buying LED holiday lights:  
They use less energy & stay cool to the  
touch while twinkling just as merrily!**

**SERVICE ADDRESS**

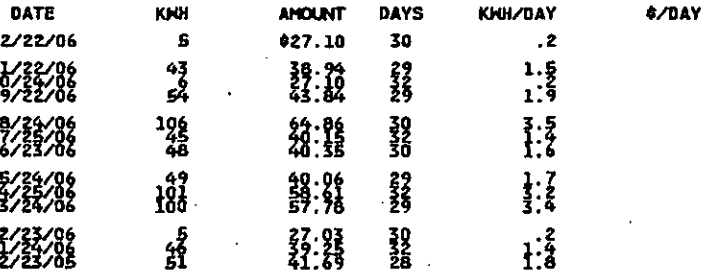
KUALAPUU RESERVOIR %

$$\begin{array}{r} \$38.94 \\ 38.94- \\ \hline \$0.00 \\ 27.10 \\ \hline \$27.10 \checkmark \end{array}$$

Ant Code #:

POSTED

B I L L P E R I O D

B I L L  
D E T A I L

122606 06775 M5

## ATTACHMENT CA-RIR-5d

Electric Co., Ltd.  
PO Box 398  
Kahului, HI 96733-6898

Consider buying LED holiday lights:  
They use less energy & stay cool to the  
touch while twinkling just as merrily!

ACCOUNT NUMBER

SERVICE ADDRESS

9200-7389-002

MOLOKAI RANCH LTD

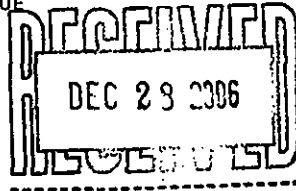
KALAE BOOSTER PUMP

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12/08/06

BALANCE FROM PREVIOUS BILLING  
PAYMENT - THANK YOU  
BALANCE PRIOR TO BILLING  
CURRENT ELECTRIC SERVICE DUE 01/14/07  
TOTAL AMOUNT DUE

\$119.36  
119.36-  
\$0.00  
181.88  
\$181.88 ✓



Approval *Alvin Ryo*  
Date 01/03/07  
Account # WAI 560-0322  
Project # \_\_\_\_\_ Accl # \_\_\_\_\_

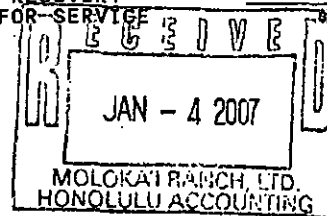
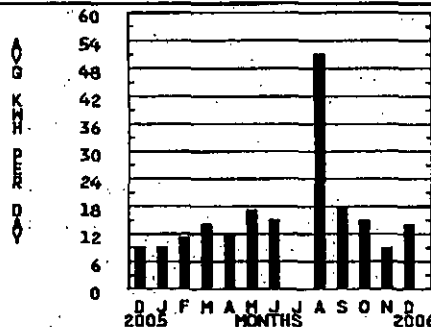
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GND GENERAL SERVICE NON-DMD  
FROM 11/22/06 TO 12/22/06 30 DAYS

MTR# MX000003553 KILOWATT HOURS  
CURRENT READING 3405  
PREVIOUS READING 3366  
DIFFERENCE 39  
MULTIPLIER 10  
USAGE 390

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CUSTOMER CHARGE \$33.00  
ENERGY CHARGE 92.79  
ENERGY COST ADJUSTMENT 54.90  
IRP COST RECOVERY 1.19  
TOTAL FOR SERVICE \$181.88

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## ELECTRIC USAGE PROFILE FOR METER MX00003553

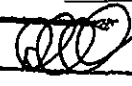
DATE	KWH	AMOUNT	DAYS	KWH/DAY	\$/DAY
12/22/06	390	\$181.88	30	13.0	6.06
11/22/06	220	119.36	29	7.6	4.88
10/22/06	470	220.03	32	14.7	9.81
09/22/06	480	226.54	29	16.6	21.69
08/22/06	1530	650.60	30	51.0	6.31
07/22/06	410	189.19	30	13.7	7.10
06/22/06	470	205.99	29	16.2	5.82
05/22/06	370	167.07	32	11.6	4.81
04/22/06	380	168.90	29	13.1	4.81
03/22/06	310	144.29	30	10.3	7.5
02/22/06	300	125.82	28	9.2	
01/22/06	210	114.03	28	7.5	

WHEN PAYING IN PERSON, PLEASE PRESENT BOTH PORTIONS

122606 06775 M5

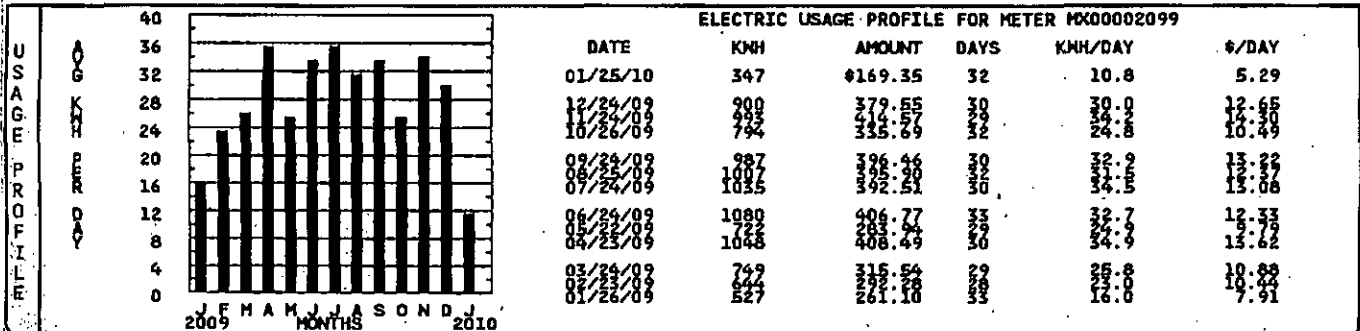
**Electric Co., Ltd.**  
 P.O. Box 398  
 Kahului, HI 96733-6898

See the light make the change!  
 Switch to compact fluorescent bulbs  
 (CFL) to **SAVE** on your electric bill.

ACCOUNT NUMBER <b>9200-9628-002</b>		MOLOKAI RANCH LTD		SERVICE ADDRESS <b>KUALAPUU-PUMP X09</b>	
AMOUNTS	01/07/10	BALANCE FROM PREVIOUS BILLING		\$379.55	
		PAYMENT - THANK YOU		379.55-	
		BALANCE PRIOR TO BILLING		\$0.00	
		CURRENT ELECTRIC SERVICE DUE 02/20/10		169.35	
		TOTAL AMOUNT DUE		\$169.35	
<div style="border: 1px solid black; padding: 5px; text-align: center;"> <b>RECEIVED</b>  <b>FEB - 2 2010</b>  <b>MOLOKAI RANCH, LTD.</b>  <b>HONOLULU ACCOUNTING</b> </div>			<div style="border: 1px solid black; padding: 5px;">           Approval             Date _____            Description <u>42009628002 Kualapuu Pump</u>            Dept/Acct # <u>WA1-S6U-20</u>            OR Job # _____            Cost Code # _____         </div>		

BILL PERIOD	GND GENERAL SERVICE NON-DMD FROM 12/24/09 TO 01/25/10 32 DAYS		BILL DETAIL	CUSTOMER CHARGE		\$33.00
				ENERGY CHARGE		82.56
				INTERIM RATE INCREASE		7.88
				PBF SURCHARGE		0.72
				ENERGY COST ADJUSTMENT		45.19
				TOTAL FOR SERVICE		\$169.35 ✓
	MTR# MX000002099 KILOWATT HOURS					
	CURRENT READING 54526					
	PREVIOUS READING 54179					
	DIFFERENCE 347					
MULTIPLIER 1						
USAGE 347						

*kakuhikura@gmail.com*



WHEN PAYING IN PERSON, PLEASE PRESENT BOTH PORTIONS

099007427 020110 06775 M5

**Mauielectric Co., Ltd.**  
 PO Box 398  
 Kahului, HI 96733-6898

Resolve to use electricity WISELY.  
 Log on to mauielectric.com to  
 find safety and energy-saving tips.

ACCOUNT NUMBER

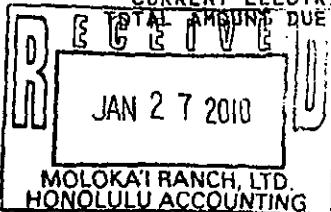
SERVICE ADDRESS

9200-7389-002

MOLOKAI RANCH LTD

KALAE BOOSTER PUMP

01/07/10 BALANCE FROM PREVIOUS BILLING \$159.15  
 01/07/10 PAYMENT - THANK YOU 85.71-  
 01/07/10 PAYMENT - THANK YOU 73.44-  
 BALANCE PRIOR TO BILLING 40.00  
 CURRENT ELECTRIC SERVICE DUE 02/14/10 77.76  
**TOTAL AMOUNT DUE \$77.76**



Approval \_\_\_\_\_  
 Date \_\_\_\_\_  
 Description \_\_\_\_\_  
 Dept/Acct # WAT-Sko-22  
 OR Job # \_\_\_\_\_  
 Cost Code # \_\_\_\_\_

AMOUNTS

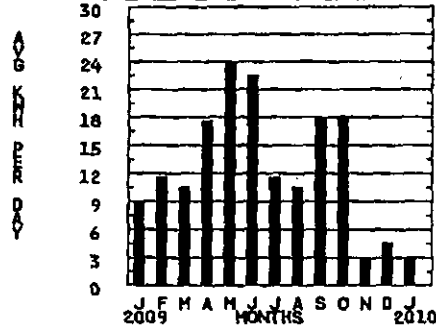
GND GENERAL SERVICE NON-DMD  
 FROM 12/24/09 TO 01/25/10 32 DAYS

MTR# MX000003553 KILOWATT HOURS  
 CURRENT READING 5426  
 PREVIOUS READING 5415  
 DIFFERENCE 11  
 MULTIPLIER 10  
 USAGE 110

BILL PERIOD

CUSTOMER CHARGE \$33.00  
 ENERGY CHARGE 26.17  
 INTERIM RATE INCREASE 4.04  
 PBF SURCHARGE 0.23  
 ENERGY COST ADJUSTMENT 14.32  
**TOTAL FOR SERVICE \$77.76**

BILL DETAIL



ELECTRIC USAGE PROFILE FOR METER MX000003553

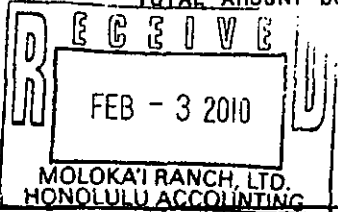
DATE	KWH	AMOUNT	DAYS	KWH/DAY	\$/DAY
01/25/10	110	\$77.76	32	3.4	
12/24/09	130	84.98	30	4.3	
11/24/09	100	73.44	30	3.2	
10/24/09	590	258.49	32	18.4	8.08
09/24/09	540	232.87	30	18.0	7.76
08/24/09	330	153.45	30	11.1	4.80
07/24/09	340	152.62	30	11.3	5.09
06/24/09	710	272.49	33	21.5	8.67
05/24/09	630	272.93	30	19.1	7.91
04/24/09	520	220.46	30	17.3	7.35
03/24/09	300	147.57	29	10.3	5.09
02/24/09	300	145.03	29	10.3	
01/24/09	290	159.57	30	8.8	

IF PAYING IN PERSON, PLEASE PRESENT BOTH PORTIONS

012610 06775 M5

Maui Electric Co., Ltd.  
PO Box 398  
Kahului, HI 96733-6898

See the light make the change!  
Switch to compact fluorescent bulbs  
(CFL) to \$AVE on your electric bill!

ACCOUNT NUMBER		SERVICE ADDRESS				
9500-4766-003		MOLOKAI RANCH LTD				
		KUALAPUU RESERVOIR X				
A M O U N T S	01/07/10	BALANCE FROM PREVIOUS BILLING	\$676.44			
	01/07/10	PAYMENT - THANK YOU	304.95-			
		PAYMENT - THANK YOU	371.49-			
		BALANCE PRIOR TO BILLING	\$0.00			
		CURRENT ELECTRIC SERVICE DUE 02/21/10	931.27			
		TOTAL AMOUNT DUE	\$931.27			
		Approval _____				
		Date _____				
		Description _____				
		Dept/Acct # _____				
		OR Job # _____				
		Cost Code # _____				
B I L L P E R I O D	GND GENERAL SERVICE NON-DMD FROM 12/24/09 TO 01/25/10 32 DAYS					
	MTR# MX000081367	KILOWATT HOURS				
	CURRENT READING	08536				
	PREVIOUS READING	06187				
	DIFFERENCE	2349				
	MULTIPLIER	1				
USAGE	2,349					
B I L L D E T A I L	CUSTOMER CHARGE		\$22.00			
	ENERGY CHARGE		558.90			
	INTERIM RATE INCREASE		39.62			
	PBF SURCHARGE		4.86			
	ENERGY COST ADJUSTMENT		305.89			
	TOTAL FOR SERVICE		\$931.27			
U S A G E P R O F I L E	ELECTRIC USAGE PROFILE FOR METER MX000081367					
	DATE	KWH	AMOUNT	DAYS	KWH/DAY	\$/DAY
	01/25/10	2349	\$931.27	32	73.4	\$29.10
	12/24/09	726	301.24	30	24.2	10.04
	11/24/09	911	371.49	29	31.4	12.81
	10/24/09	261	122.26	32	8.2	3.82
	09/24/09	46	40.34	30	1.5	2.84
	08/24/09	188	40.83	32	5.9	2.99
	07/24/09	192	89.77	30	6.4	3.25
	06/24/09	94	55.85	33	2.8	
	05/24/09	46	28.84	29	1.6	
	04/24/09	42	38.46	30	1.4	
	03/24/09	189	94.27	29	6.5	3.25
	02/24/09	5	28.92	28	1.0	
	01/24/09	6	28.92	33	1.2	

WHEN PAYING IN PERSON, PLEASE PRESENT BOTH PORTIONS

099007427 020210 06775 M5

PLEASE DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT



Maui Electric Co., Ltd.  
PO Box 398  
Kahului, HI 96733-6898  
Telephone (808) 871-9777

ACCOUNT NUMBER  
9500-4766-003

DATE DUE  
FEB 21, 2010

TOTAL AMOUNT DUE  
\$931.27

AMOUNT ENCLOSED

PLEASE MAKE CHECKS  
PAYABLE TO:

MECO  
PO Box 1670  
Honolulu, HI 96806-1670

MOLOKAI RANCH LTD  
119 MERCHANT ST STE 408  
HONOLULU HI 96813-4418

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**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-6

**Ref: WOM-RT-100, pages 14 – 19 and WOM-R-7.**

- a. The Company contends that "the Consumer Advocate's information requests seemed to be higher than the other cases." (emphasis added)

1. Did the Company perform any analysis to arrive at this conclusion?

**RESPONSE:**

The Company did not perform such an analysis.

2. If so, please identify the other cases considered and provide a copy of that analysis.

**RESPONSE:**

Not applicable, see response to CA-RIR-6a.1 above.

- b. Please identify the hours recorded by the Company's regulatory and legal outside services vendors for the discovery phase. In addition, assuming that the detail is available, please further provide a descriptive classification for the hours incurred separately by the legal and regulatory vendors by function, such as drafting responses, conducting analyses, researching, reviewing drafts, etc.

**RESPONSE:**

The Company will provide the requested details no later than Monday, March 1, 2010.

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-6 (cont.)

- c. Column 5 of WOM-R-7 indicates that the derivation of the total is based upon the sum of columns 3 and 4. Please confirm that this is not true for lines 6 and 8, where the totals are derived from the sums of columns 2 and 4 since there is no settlement in those two cases.

**RESPONSE:** The derivation of the amounts in column 5 on lines 6 and 8 is confirmed.

**SPONSOR:** Robert O'Brien



**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7

**Ref: WOM-RT-100, pages 27 – 28.**

The Company observes that the Consumer Advocate contends that certain portions of plant might be excess capacity, but contends that any such adjustment would not be supported by the Company.

- a. Please discuss whether it is the Company's understanding that the Commission's standard is whether plant is "used and useful" or "used or useful." Please provide any authoritative citations.

**RESPONSE:**

The Company does not understand the relevancy of the Consumer Advocate's question. However, without waiving any objection thereto, the Company notes that under HRS § 269-16(b)(3), the statute utilizes the phrase "property actually **used or useful** for public utility purposes" (emphasis added).

- b. Is it the Company's assertion that all of the plant currently existing is necessary to serve the currently existing customer base?

**RESPONSE:**

No, that is not the Company's assertion. In any water or sewer utility operation, engineering, fire flow, and operational reasons require the utility to have sufficient reserves beyond

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7 (cont.)

what is required to serve the "currently existing customer base".

1. If so, please confirm that there is no additional capacity in the existing plant to serve any future incremental or additional demand. Please provide a copy of the report or analysis that supports the Company's response.

**RESPONSE:**

Not applicable, see responses to part "a" and "b" above.

2. If the Company is asserting that there is no additional available capacity, please discuss how the Company plans to serve any future additional load.

**RESPONSE:**

No, that is not the Company's assertion.

3. If it is the Company's assertion that there is capacity that could be used to serve future loads, but, rather than recovering the costs for that capacity from those future customers, the Company is recommending that the existing customers should be required to pay for capacity unrelated to their demands, please provide

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7 (cont.)

any authoritative citations that explicitly supports the conclusion that such an expectation is reasonable.

**RESPONSE:**

No, that is not the Company's assertion.

4. If the Company acknowledges that there is existing capacity that was used to previously serve customer demand but is now available, please identify that existing capacity and provide a copy of any analysis or study that supports the Company's response.

**RESPONSE:**

The Company acknowledges that there is existing capacity that was required to provide service to customers for a number of years that are not customers at this time. The Company has made no calculations of the capacity that was required to serve those customers. However, because of the lateness of this request and the Company's desire to focus on the remaining items set forth in the Stipulated Regulatory Schedule (Exhibit A) attached to the Order Approving Proposed Procedural Order, As Amended, issued by the Commission on November 6, 2009, to the extent that the Company is able to research the

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7 (cont.)

matter and prepare the calculations, a further response will be provided no later than March 8, 2010.

5. If not already provided, please provide the following:
- (a) Total plant capacity, both peak and average.
- If this information is available by major plant function, such detail would be preferable.

**RESPONSE:**

See response to CA-RIR-7b.4.

- (b) Recorded monthly peak usage for each of the past three years. If this information is available by major plant function, such detail would be preferable.

**RESPONSE:**

See response to CA-RIR-7b.4.

- (c) Recorded monthly peak and average usage by customer class and meter size for each of the past three years.

**RESPONSE:**

This requested information is not available since the Company's recordkeeping does not include peak and average usage by customer class and meter size.

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7 (cont.)

- (d) Industry standard values for the expected average and peak usage per type of customer in the Company's service territory.

**RESPONSE:**

The Company does not have the requested industry standard values and therefore cannot provide them in response to this information request.

- c. *Please confirm that requiring the existing customer base to pay for all fixed and variable costs will result in a higher utility rate for the remaining customers as compared to the costs that are attributable to those customers. If the Company disagrees, please provide a copy of the analysis or study that supports the Company's position.*

**RESPONSE:**

The Company agrees that the remaining customers will have higher utility bills because the plant that was required to serve the customers, some of whom are no longer users, will be recovered from fewer customers and over smaller usage amounts. The Company also believes that not recovering the total costs to serve for plant that was required to provide service will severely penalize the Company for results that it

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7 (cont.)

did not cause and would deny the Company an opportunity to recover its costs incurred to provide utility service.

- d. If the Company agrees that utility rates designed to recover fully embedded costs from the remaining customer base will be higher because the remaining customers are being burdened with all fixed and variable costs, even those not attributable to capacity required by the existing customer base, does the Company also agree that the higher rates might cause one or more of the following:

1. Customers leave the system due to excessive utility rates;

**RESPONSE:**

That is always a possibility. However, since a customer has few viable alternatives (purchasing bottled water, installing catchment system, etc.), the customer would likely move from the service territory before actually disconnecting service from the Company.

2. Greater levels of uncollectible expense or bad debts on a short and/or long term basis; or

**RESPONSE:**

That is a possibility.

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7 (cont.)

3. Customers will be required to modify their lifestyles to allocate a greater portion of their monthly income towards water utility bills.

**RESPONSE:** That is a possibility.

- e. Assuming that the Company agrees with any of the three possible conditions that might occur, please describe what, if any, solutions the Company would propose to mitigate the adverse impacts on its customers.

**RESPONSE:** There are no good solutions, based on the form of the questions. The major alternative which would not penalize the Company further, would be for the government agencies to come to the aid of its residents and taxpayers to provide assistance which could be in the form of funds for paying the utility bills or other subsidies to the utility to reduce the costs that need to be recovered from customers. For example, the utility could be exempted from the revenue taxes and other fees during this period. There are probably additional solutions such as customers forming a cooperative and operating the utility. While this would require the utility to be *compensated for its investment, the cooperative should be*

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7 (cont.)

*able to obtain governmental support for that activity and set its own service conditions, subject to the Commission regulations and local, state and Federal laws.*

- f. *Please discuss whether rate design based on evaluating the functionalization and class allocation of rate base, revenue and expense items would reduce most of the possible issues with having one class, such as residential customers, bear costs that might be more appropriately attributable to another class, such as commercial customers, but might result in the remaining commercial customers having to bear costs associated with capacity not necessary to serve those remaining customers. If this understanding is incorrect, please provide the appropriate clarifications and/or corrections.*

**RESPONSE:**

*In general a fully allocated class cost of service study would provide the data required to permit a determination of the levels of costs and expenses for each type of services. However, with small utilities such as WOM, recovery of the cost of such a study could result in higher customer rates and, if there is no significant difference in the number of*



**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-7 (cont.)

customers in each class or usage between the classes,  
there would be no significant change in the recovery  
requirements.

**SPONSOR:** Robert O'Brien

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-8

**Ref: WOM-RT-100.**

In the Consumer Advocate's testimony, it was suggested or recommended that the Commission should consider the need for a focused management audit or time and motion study. In the Molokai Public Utilities, Inc. rate case, the Company asserted that a time and motion study was not needed.

- a. Please discuss the Company's position on the need for a management audit or time and motion study.

**RESPONSE:**

The Company, for the same reasons presented by Molokai Public Utilities, Inc., does not believe a time and motion study is required. See MPU-RT-100, pp. 44-45, filed in Docket No. 2009-0048.

- b. If the Company agrees that a management audit and/or time and motion study might provide valuable information to both the Company and the Commission, please identify the areas in which the Company agrees that such efforts would be acceptable or desirable.

**RESPONSE:**

The Company does not agree that the costs and time requirements to perform a thorough time and motion study would be beneficial to it or its customers.

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-8 (cont.)

- c. If the Company contends that management audits and/or time and motion studies are not necessary, given the recent procedural and accounting changes and the significant effects it had on the recorded utility expenses, what evidence can the Company provide to support the contention that all recorded costs are: 1) correctly attributable to the utility company; and 2) reflects a reasonable amount of time associated with the various labor hours associated with the tasks required to operate and maintain the Company's facilities? Please provide copies of any relevant documents that support the Company's assertions.

**RESPONSE:**

The Company has provided copies of actual employee time reports for several periods in response to information requests and contends that those time reports reflect that actual time spent by employees on the Company's activities. (see response and confidential attachments to CA-IR-25a). In addition the Company has noted, in response to several information requests that it has received no complaints from customers for poor service or for failing machinery, plant or equipment that were not addressed in an expedient manner.

**WAI'OLA O MOLOKA'I, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
SUBMISSION OF REBUTTAL INFORMATION REQUESTS**

**DOCKET NO. 2009-0049**

CA-RIR-8 (cont.)

- d. If the Company cannot provide substantive evidence regarding the reasonableness of the time and expenses that are being recorded by the Companies and a time and motion study is not appropriate or required, please identify the means by which the Company could meet its burden of proof if the Commission was inclined to investigate this matter.

**RESPONSE:**

The Company believes, with only the substantive evidence discussed in response to part "a" above, that it is being reasonable in its activities and does not need to spend what *would be substantial amounts of money and substantial amounts of time* (for the size of the utility) to have an expert conduct a detailed time and motion study to confirm the Company's belief. If the Commission believes that the Company and its customers should pay for such a study, the Company will cooperate as the Commission directs.

- e. Assuming that the Company contends that the audit of its financial statements performed by KPMG LLC provides some support that could be used by the Commission, please provide a copy of the engagement letter and/or any other communications between the Company and KPMG that

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**DOCKET NO. 2009-0049**

CA-RIR-8 (cont.)

clearly indicates that KPMG was tasked to evaluate and test whether the reported time and expenses are correctly recorded and attributable to the utility company as well as evaluating the reasonableness of the time spent on various tasks.

**RESPONSE:** The Company does not make such a contention. However, a copy of the audit engagement letter is included as Attachment CA-RIR-8e.

**SPONSOR:** Robert O'Brien

**ATTACHMENT**  
**CA-RIR-8e**



KPMG LLP  
PO Box 4150  
Honolulu, HI 96812-4150

Telephone 808 540 2800  
Fax 808 358 1522  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

May 4, 2009

Mr. Peter A. Nicholas  
President  
Wai'ola O Molokai  
Molokai Public Utilities, Inc.  
119 Merchant Street  
Suite 408  
Honolulu, Hawaii 96813

Dear Mr. Nicholas:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to Wai'ola O Molokai and Molokai Public Utilities, Inc. (the Companies).

**Objectives and Limitations of Services**

***Audit Services***

We will issue a written report upon our audits of the Companies' financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, with the objective of expressing an opinion as to whether the presentation of the financial statements, taken as a whole, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.



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Our report will be addressed to the board of directors of the Companies. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our reports or withdraw from the engagement.

While our report may be sent to the Companies electronically for your convenience, only the hard copy report is to be relied upon as our work product.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we will consider the Companies' internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The objective of our audit of the financial statements is not to report on the Companies' internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

***Registration Statements and Other Offering Documents***

Should the Companies wish to include or incorporate by reference these financial statements and our audit report(s) thereon into a future filing under the Securities Act of 1933, or an exempt offering, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the Public Company Accounting Oversight Board, including, but not limited to, reading other information incorporated by reference in the registration statement or other offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future filings or other offering documents will be determined at the time the services are to be performed.

***Our Responsibility to Communicate with the Board of Directors***

While the objective of our audit of the financial statements is not to report on the Companies' internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, we will communicate, in writing,





Mr. Peter A. Nicholas  
Wai'ola O Molokai  
Molokai Public Utilities, Inc.  
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significant deficiencies or material weaknesses to the board of directors to the extent they come to our attention.

We will report to the board of directors, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the Companies' financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of board of directors meetings for consistency with our understanding of the communications made to the board of directors and determine that the board of directors has received copies of all material written communications between ourselves and management. We will also determine that the board of directors has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the board of directors illegal acts that come to our attention, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the board of directors our reasons for withdrawal.

#### **Management Responsibilities**

The management of the Companies is responsible for the fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations



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contained therein. Management also is responsible for identifying and ensuring that the Companies complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all significant deficiencies or material weaknesses in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the Companies also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the Companies' personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Because of the importance of management's representations to the effective performance of our services, the Companies will release KPMG LLP (KPMG) and its personnel from any claims, liabilities, costs, and expenses relating to our services under this letter attributable to any known misrepresentations in the representation letter referred to above.

#### **Dispute Resolution**

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the Companies or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or



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enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in Honolulu, Hawaii. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

#### **Other Matters**

This letter shall serve as the Companies' authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the Companies and between KPMG and outside specialists or other entities engaged by either KPMG or the Companies. The Companies acknowledge that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the Companies hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid-up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the Companies solely for presentations or reports to the Companies or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.



Mr. Peter A. Nicholas  
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The work papers for this engagement are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the Companies in judicial or administrative proceedings to which KPMG is not a party, the Companies shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

KPMG member firms located outside the United States and other third-party service providers operating under our supervision may also participate in providing the services described in this letter.

The Companies agree to provide prompt notification if the Companies or any of its subsidiaries or affiliates currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the Companies or such subsidiary or affiliate that would result in KPMG becoming subject to registration in such jurisdiction.

***Reports and Fees for Services***

Appendix I to this letter lists the reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

\* \* \* \* \*

Our engagement herein is for the provision of annual audit services for the financial statements and for the periods described in Appendix I, and it is understood that such services are provided as a single engagement. Pursuant to our arrangement as reflected in this letter, we will provide the services set forth in Appendix I as a single engagement for each of the Companies' subsequent fiscal years until either the board of directors or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the management of the Companies.



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We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

A handwritten signature in black ink, appearing to read "G. Ciano", with a long horizontal flourish extending to the right.

Gordon D. Ciano  
*Partner*

ACCEPTED:

WAI'OLA O MOLOKAI  
MOLOKAI PUBLIC UTILITIES, INC.

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

**Appendix I**

**Fees for Services**

Based upon our discussions with and representations of you, Mr. Daniel Orodener, and Ms. Elaine Hammond, our fees for services we will perform are estimated as follows:

Audit of financial statements of Wai'ola O Molokai and Molokai Public Utilities, Inc. as of and for the year ended December 31, 2008	\$ 40,000 - \$45,000
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We anticipate providing you with a draft of the financial statements on May 26, 2009.

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, out-of-pocket expenses, such as Hawaii general excise tax are billed for reimbursement as incurred. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

MR. DEAN NISHINA Executive Director Department of Commerce and Consumer Affairs Division of Consumer Advocacy 335 Merchant Street, Suite 326 Honolulu, Hawaii 96813	3 copies Hand Deliver
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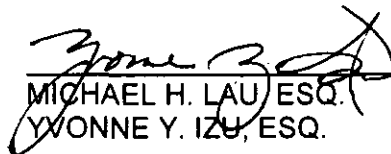
MARGERY S. BRONSTER, ESQ. JEANNETTE H. CASTAGNETTI, ESQ. Bronster Hoshibata 2300 Pauahi Tower 1003 Bishop Street Honolulu, HI 96813	1 copy Hand Deliver
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Attorneys for the COUNTY OF MAUI

ANDREW V. BEAMAN, ESQ. Chun Kerr Dodd Beaman & Wong, LLLP Topa Financial Center, Fort Street Tower 745 Fort Street, 9 <sup>th</sup> Floor Honolulu, HI 96813	1 copy Hand Deliver
--	------------------------

Attorney for MOLOKAI PROPERTIES LIMITED

DATED: Honolulu, Hawai'i, February 26, 2010.

  
\_\_\_\_\_  
MICHAEL H. LAU, ESQ.  
YVONNE Y. IZU, ESQ.

Morihara Lau & Fong LLP  
Attorneys for WAI'OLA O MOLOKA'I, INC.